MARKET OBSERVATIONS
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SCHLINDWEIN ASSOCIATES
INVESTMENT COUNSEL

Highs & Lows

Reaching record stock market price levels is a cause for celebration. Repeatedly breaking new highs, especially in a relative short period, is headline-making news although the significance of such outcomes may be less clear. Some suggest that multiple market highs indicate investors have become too exuberant and a market correction is sure to follow. Stock market levels reflect many factors, importantly levels of and expectations for corporate earnings and interest rates. Trends for these factors could support current market levels and higher or provide a correction signal. A review of some recent highs and lows can provide perspective for investing yet ahead.

PERSPECTIVE

New daily closing highs by year for the Dow Jones Industrial Average ("DJIA") are shown in Chart I. Years with new highs totaled 47, and the average number of new highs per year was 28. The longest consecutive run of years with new highs was twelve from 1989 through 2000. The longest consecutive run of years without new highs was 24 from 1930 to 1953, perhaps no surprise with the Great Depression and World War II in between. The current consecutive run of years with new highs stands at nine. 2021 already has posted 35 new highs and is on pace for 60+. Excluding the longest consecutive run, the average number of years between new highs is three, and the two most recent stretches are five years each.

Corporate earnings are reported quarterly and the past 70 years of earnings after tax are shown in Chart II. New highs for corporate earnings were posted in 44% of all quarters over this period. New highs were reached in 47 of 70 years. The longest consecutive run of years without a new high in earnings was four from 1998 to 2001. Of note here is that the high for the DJIA came on January 14, 2000, well after the peak in earnings for that cycle. The frequency of new quarterly highs for corporate earnings has been less in recent years. A higher frequency ahead could be supportive of more new highs for stock prices.

Low and declining interest rates generally are favorable for higher stock market price levels. The recent period of low interest rates has been an important factor in the multi-year rise in stock markets. As seen in Chart III, the pattern of new interest rate lows for the benchmark U.S. Treasury 10-Year Note is strikingly different than that of new highs for either the DJIA or corporate earnings. For much of the period shown, there were no new lows from yield levels that prevailed 60 years ago. While the long, secular bull market for bonds began in 1980, new lows were not reached until 2002. After 39 years without any, new lows have been posted in 7 of the past 20 years with 11 new lows occurring in 2020. Unfortunately, this unusual historical pattern may provide little indication of the interest rate trend ahead.

INVESTMENT IMPLICATIONS

Historical market highs and lows are notable and are some evidence of market cycle behavior. The variability over time of historical high and low patterns for stock prices, corporate earnings and interest rates limits their prognostic benefits. However, awareness of these patterns can provide context for shaping expectations of trends yet ahead. Viewing a range of potential outcomes rather than focusing on a single scenario is important for risk management amidst highs and lows.

CHART I

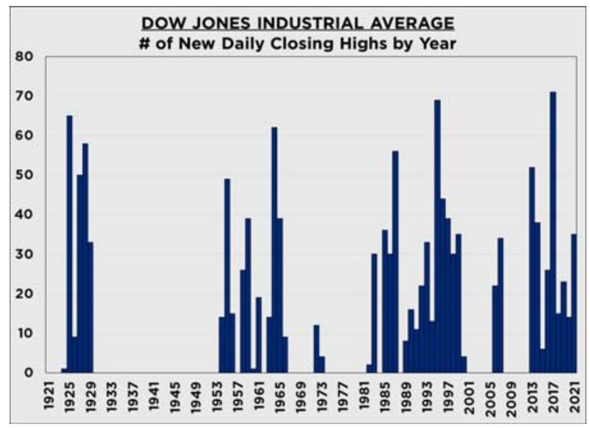

CHART II

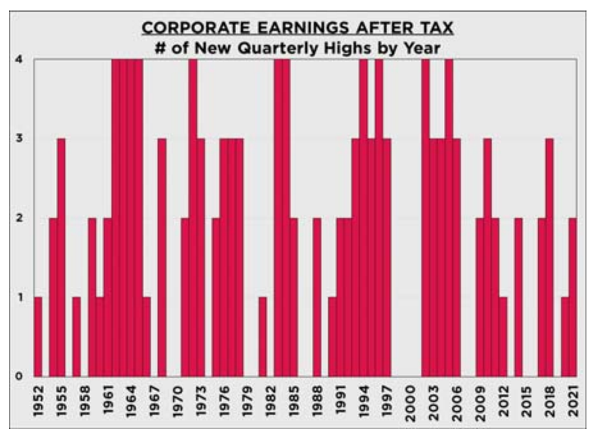

CHART III